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ABSTRACT

This paper provides student materials for a course project in which students read, analyze, and interpret the information in an actual comprehensive annual financial report (CAFR) of a government entity (a city with a population greater than 40,000), and is based on the actual reviewer's checklist used by the Government Finance Officers Association's Special Review Committee when a CAFR is formally evaluated. Introductory material explains the significance of the project and offers suggestions to instructors for the practical implementation and assessment of the project. The balance of the paper contains instructions to the student on the assignment. It begins with an explanation of how to complete the assignment, including where and how to obtain a prototypical CAFR. This is followed by an explanation of the report format the student is expected to follow, including an introduction, a brief summary of economic conditions, and major initiatives. For the analysis of the financial section of the report, the student is provided section-by-section with questions about the CAFR report, and these, in turn, are keyed to the actual reviewer's checklist for reference. An assessment rubric is attached. (DB)

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ED 435 300

GOVERNMENTAL ACCOUNTING

COMMPREHENSIVE ANNUAL FINANCIAL REPORT

PROJECT

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Semester Project - Course Materials

September 2, 1999

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GOVERNMENTAL ACCOUNTING
COMPREHENSIVE ANNUAL FINANCIAL REPORT PROJECT

INTRODUCTION

Significance of Project

Providing students with a real-world connection is an integral part to an academic education. This project allows students to read, analyze, and interpret the information contained within an actual Comprehensive Annual Financial Report of a government entity concurrently as academic course material is covered. The project fosters critical thinking skills involving interpretation, analysis, evaluation, inference and explanation. Furthermore, the examination conducted by students is based upon the actual reviewer's checklist used by the Government Finance Officers Association's Special Review Committee when a CAFR is evaluated for the Certificate of Achievement for Excellence in Financial Reporting.

Implementation and Notes to Instructors

The Governmental Accounting Comprehensive Annual Financial Report Project should be assigned during the first week of classes. Students should be encouraged to obtain a CAFR as soon as possible. Writing letters and waiting for a response generally takes two to three weeks. The project should be due at the conclusion of the fund accounting segment of a traditional introductory not-for-profit course. Time spent on fund accounting is approximately 75% of the semester.

This project can be assigned as an individual or group effort at the discretion of the instructor. The author has used the assignment in both formats. If assigned as a group effort, peer evaluation is recommended as a way of rewarding individual contributions.

To facilitate the grading of the project an assessment rubric has been included as the last page of the report handout materials. This form is distributed to students at the time the project is assigned to communicate expectations regarding quality as well as assessment criteria. Student feedback indicates that the project be weighted the equivalent of one examination. The points earned based on the grading rubric can be converted to a percentage and multiplied times the value assigned to the project.

The materials on the following pages should be distributed to students in either hard-copy or electronic format.

GOVERNMENTAL ACCOUNTING
COMPREHENSIVE ANNUAL FINANCIAL REPORT PROJECT

The Government Finance Officers Association (GFOA) administers the Certificate of Achievement for Excellence in Financial Report Program for governmental entities. The program was established in 1945 to encourage all government units to prepare and publish an easily readable and understandable comprehensive annual financial report (CAFR). The attainment of a Certificate of Achievement represents a significant accomplishment for a government and its management. The Special Review Committee Checklist is a 51 page document that contains over 450 check points. The questions to be addressed in your report are adapted from this checklist. The number in parentheses following the questions indicates the specific check list item from which it was derived. A "*" after the number indicates an item that may disqualify the CAFR.

ASSIGNMENT

1. What You Need. Obtain a copy of a recently audited Comprehensive Annual Financial report (CAFR) of a government entity (city). You should use the CAFR from a city with a population of greater than 40,000 residents.

2. Nature of Report. Write a very descriptive professionally prepared report in paragraph form that analyzes the contents of the CAFR obtained by responding to questions adapted from the GFOA Reviewer's Checklist. Yes/no answers to the questions are NOT sufficient. Similarly merely beginning each question with Yes or No and rephrasing the question is insufficient. You must provide examples and reference specific pages on which the information can be found.

   Example:

   The City of XYZ lists 10 Reserved Fund Balance Accounts and three Designated Unreserved Fund Balance Accounts (See page 10). In addition to those discussed in class, the City of XYZ has reserved fund balance accounts for a Justice Information System amounting to $579,184 and equipment acquisitions for $8,996,347.

3. Unavailable Information. If a particular fund type is not used by your city, merely indicate that this is the case. In other cases, specific circumstances may not apply to your city.

4. Use of Headings. At a minimum, you must use the headings and subheadings identified by Roman numerals and capital letters. The first level heading must be centered, bolded and all caps. The second level heading should be flush left at the left margin and bolded. The first letter of each major word is to be capitalized. Text begins on a

new line below the heading. Third level headings should be indented from the left margin and underlined. Text begins on the same line as the heading. Paragraphs should be constructed to answer the questions within each subsection as necessary. Each paragraph written must have at a minimum two sentences in it. In many cases you will be able to answer several questions in one paragraph. In other cases it may more appropriate to use a third level heading followed by single or multiple paragraphs relating to that point.

Example:

FINANCIAL SECTION *(First level)*

Combined Balance Sheet - All Fund Types, Account Groups and Component Units *(Second level)*
Text begins here.

Assets. Text begins here. *(Third level heading)*

5. Format. Your report must be double-spaced and page-numbered with 1" margins on all sides. The paper is to be left justified only.

6. Print Quality. Word-processed and printed using a laser or ink-jet quality printer

7. Grading. An evaluation form appears as the last page of this document. Your paper will be graded on grammar and language usage fundamentals as well as the thoroughness of your responses. Sentences should be clear and concise. Avoid using long compound sentences connected by semicolons. Avoid beginning sentences with "There is..." Write in first or third person, avoiding the use of "you."

WHERE TO OBTAIN A CAFR

Often, you can obtain a CAFR by going to a municipality's city hall and asking for a copy from a prior year. Sometimes a city's CAFR is on file at the local public library. Or, you can write to the city's Chief Financial Officer. If you do not know the exact title or address, you should write to "Director of Finance, City of _____, and the address it to the City Hall in the city and state of your choice. Be sure to tell the Director of Finance that you want a copy of the audited Comprehensive Annual Financial Report and why are a requesting the financial statements. Offer to pay for postage. I will be glad to proof your letter and have it printed on university stationary to facilitate your request. Finally, you may also find CAFR's posted on the Internet. The address is: www.financenet.gov

REPORT CONTENT

I. TITLE PAGE

On separate lines include: the title of the project, the name of your city, your name, our course number, instructor's name, and submission date. An appropriate pleasing format is expected.

II. TABLE OF CONTENTS

Include an appropriately formatted Table of Content (use dot leaders between the heading and page numbers). At a minimum, you must have headings for items below that are identified by a Roman numeral and subheadings for items identified by a capitalized letter.

III. INTRODUCTION.

Create a brief introduction for your report. (1-2 paragraphs minimum.)

IV. CAFR - INTRODUCTORY SECTION.

The Introductory Section may contain a letter from the Director of Financial Services; a list of Principal Officers; an Organization Chart; and the Certificate of Excellence in Financial Reporting. Review your CAFR to determine whether or not each item is presented. Provide a one or two paragraph summary of the nature of these items.

A. Introduction.

1. To whom is the letter addressed?

2. Is the letter presented on letterhead stationery of the government, dated on or after the date of the auditor's report, and signed by the chief financial officer? (112, 113, 114)

3. Does the letter address management's responsibility for the financial information? (121a)

4. How is the reporting entity defined? Is the definition used appropriate? (121c)

B. Economic Condition and Outlook.

1. Is a summary of the local economy provided? (122a)

2. What are the major industries affecting the local economy? (122b)

3. How would you describe the government's future economic outlook? (122c)

C. Major Initiatives.

1. What current-year and future year projects are discussed? (123a & 123b)

2. What service efforts and accomplishments are mentioned? (123c)

D. Financial information.

1. What does the letter say about the government's internal control structure and budgetary controls? (124a)

2. What Proprietary and Fiduciary Operations are discussed? (124c & 124d)

3. What does the letter say about debt administration, cash management, and risk management? (124e-g)

4. What does the letter have to say about total general governmental revenues and expenditures; net direct bonded debt; total fund balance; and net operating income available for debt service? Discuss each item. (131)

5. Do the amounts reported agree with amounts in the financial and statistical sections? Trace them and explain how you know they do or do not agree. (131)

V. FINANCIAL SECTION.

A. Independent Auditor's Report

Read the Independent Auditor's Report. Summarize the nature of the audit report by including answers to the following questions:

1. What type of auditor's report has been issued? (206)

2. Which financial statements/schedules are covered by the auditor's opinion? (203)

3. Who do the auditor's say is responsible for the financial statements. (202)

4. How has the audit been performed (in accordance to what)? (204*)

5. How does the auditor's report say the financial statements are presented? (205*)

6. What is the date of the auditor's report? (209)

B. Combined Balance Sheet - All Fund Types, Account Groups and Component Units.

1. How are the columns captioned (i.e., with generic fund types, account groups, and if applicable discrete presentation titles)? (317)

2. Are columns sequenced in the same order as the separate generic fund type subsections in the financial section? (318)

3. Assets.

a. Has the government refrained from reporting nonasset "other debits" on the balance sheet except in the General Long Term Debt Account Group (GLTDAG)? (331*)

Note: In governmental fund types, discounts/premiums on debt issuance should not be reported as this is inconsistent with the "current financial resources" measurement focus. In addition, the "amount available for debt service" and "amount to be provided for the retirement of long-term debet" are nonasset balancing accounts and should only be reported in the General Long Term Debt Account Group. (p. 8, Sect. 331)

b. Does the year-end fund balance of the Debt Service Fund agree with the "amount available" for debt service in the General Long Term Debt Account Group? What is this amount? If the amounts do not agree, what is the difference? Can you determine to what the difference is attributed? (333)

Note: Funds available in other governmental funds for retirement of general long-term debt also may be reported as "amounts available" in the GLTDAG. The notes should disclose the funds available if they are not designated separately on the face of the combined balance sheet. (p. 10, sect. 337).

c. How are fixed assets reported? (334*)

d. Do interfund receivable equal interfund payables? What is the amount? (337)

If these amounts do not balance, then review the restricted asset/liability sections for interfund receivables/payables. If the amounts still do not agree, then review the required note disclosures to determine the explanation for the differences.

4. Liabilities.

a. Are anticipation notes payable (tax, revenue, etc.) properly classified on the balance sheet? (341*)

A common reporting error occurs when governments report these notes in the general long-term debt account group because the notes have long-term maturity dates or are expected to be refinanced on a long-term basis. (p.9, sect. 341)

b. How are long term liabilities reported? (343)

c. What type of long-term liabilities are reported in the General Long-Term Debt Account Group? (344*)

5. Fund Equity.

a. Which funds have reported "fund balances?" (353*)

b. Which funds have reported "retained earnings" or contributed capital?" (443)

c. What type of reserves or designations of fund equity are reported in the Combined Balance sheet? (358)

d. Where is the nature and purpose of all reserves or designations described (either on the statement or in the notes to the financial statements)? (358a)

e. Are encumbrances being reported? (359)

(1) What do the notes say about the accounting and financial reporting treatment applied to encumbrances? (551)

(2) If only unencumbered appropriations lapse at year end, what do the notes say about the treatment of the encumbered appropriations? (552)

C. Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds, and Discretely Presented Component Units.

1. Revenues and Other Sources:

a. How are revenues being classified? Give examples to support your answer. (371)

b. How are the proceeds of long-term debt issues presented? (372*)

Review the note disclosure pertaining to changes in general long-term debt to determine if any additions to GLTDAG have occurred. A common reporting deficiency occurs when a government fails to report the proceeds of debt appropriately when the proceeds of the debt are given to another government entity.

2. Expenditures and Other Uses:

a. How are expenditures classified. Provide examples to justify your answer. (381)

b. Are current expenditures further classified by function and/or program? Give examples. (381a)

c. If you city has entered into capital lease agreements, how are they being reported? (382*)

Review the notes to the financial statements (changes in long-term debt) to determine whether any capital leases were entered into during the current year.

d. How are operating interfund transfers being reported? (386)

(1) To what does the term "Operating Transfer' refer? (387)

D. Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.

1. For which funds are budget and actual data shown? (393*)

2. For which funds do the notes say annual budgets are legally adopted? (541)

3. If annual budget are legally adopted for some but not all funds, is this fact explained? (543)

4. Are both budget and actual data presented on the budgetary basis? (394*)

   a. If the budgetary basis is different from GAAP (basis, timing, perspective or entity differences), where is the nature and the amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis disclosed? Briefly explain. (547*)

   b. To what extent has the government stayed within it's budget, i.e., by what amount have the actual "Excess of revenues and other sources over (under) expenditures and other uses" varied from the budget?

5. What do the notes disclose about the legal level of control i.e., the level at which expenditures may not legally exceed appropriations for each budget for which data are presented? (548)

E. Combined Statement of Revenues, Expenses and Changes in Retained Earning (or Equity) - All Proprietary Fund Types (and Similar Trust Funds and Discretely Presented Component Units.

1. Operating Results.

   a. Are revenue and expense classifications sufficiently detailed to be meaningful? Describe some of them. (411)

   b. If fixed assets are reported in the proprietary and similar trust fund type columns of the balance sheet, is depreciation expense separately reported on the operating statements for the Enterprise funds, Internal service funds, and similar fiduciary funds? (413)

2. Non-operating Results.

   a. Where does this section appear?

b. What is the nature of some of the items presented? (421)

c. Are operating transfers in or out reported in a separate classification after the reported "income or loss before operating transfers?" What is the extent of the operating transfers? (422)

3. Equity.

a. Has any depreciation on assets acquired or constructed through capital grants closed to contributed capital? (426)

b. Is the gross amount of depreciation presented as: a) an expense, with b) the "add back" portion of depreciation closed to contributed capital reported after net income but before changes in fund equity? (426)

c. What type of special assessment levies, if any, have been used to construct or purchase a fixed asset? Are they reported as contributed capital? (427)

d. Do the changes in proprietary fund equity include a reconciliation of contributed capital if not disclosed separately in the notes? (428)

e. Which format is used to present the Changes in Retained Earnings? If increases or decreases to reserve accounts are indicated, describe some of them.

f. For which funds did retained earnings or fund balance increase at year end?

F. Combined Statement of Cash Flows - All Proprietary Fund Types (and Nonexpendable Trust Funds and Discretely Presented Component Units):

1. Has the statement been presented using the Indirect or Direct method of reporting?

2. Into what categories does the statement classify gross cash receipts and payments? (435)

3. For which funds, did net cash increase or decrease? List amounts.

4. What were some of the major factors that caused cash to increase or decrease during the year?

5. Does the figure reported as cash and cash equivalents at the end of the period trace to a similar account on the balance sheet? What is the amount and on what pages can they be found? (438)

6. Is information about all investing, capital and financing activities of a governmental enterprise during the period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period reported in a separate schedule to the statement of cash flows? *Examples of the type of noncash transactions you are looking for include noncash contributions from developers and acquiring assets with capital lease agreements.* (439)

G. Notes to the Financial Statements:

1. Summary of Significant Accounting Policies.

a. What do the notes say about the basis of accounting and measurement focus for the governmental funds and expendable trust funds? (528*)

b. Do the notes define the modified accrual basis in a manner that is consistent with the authoritative literature? (530)

c. Do the notes clearly indicate which primary revenue sources have been treated as "susceptible to accrual" under the modified accrual basis? (531)

d. According to this note, when are revenues recognized? (532*)

e. Has the government reported as property tax revenue only those taxes levied for and due within the fiscal year, and collected within at most sixty days after the fiscal year ended? (532b*)

f. Has the government accrued as revenue only that portion of long-term sales contracts, notes and leases receivable which is measurable and available? (532b*)

g. When are special assessment levies reported? (532c*)

h. Are proprietary funds, nonexpendable trust funds and pension trust funds reported on the accrual basis of accounting and "economic resources" measurement focus? (529*)

2. *Cash and Investments.*

   a. What is the credit and market risk for deposits and investments? (561*)

   b. What types of investments are authorized by legal or contractual provisions? (563)

   c. What are the bank balances of deposits at the balance sheet date and to what extent are they insured or collateralized with securities held by the government or its agent in the government's name? (564)

   d. If the bank balances of deposits at the balance sheet date are not entirely insured or collateralized with securities held by the government or its agent in the government's name, what do the notes disclose? (565)

   e. What is the carrying amount and market value of investments as of the balance sheet date by investment type and in total? (566)

3. *Property Taxes.*

   a. Are property taxes receivable discussed in the notes? (571)

   b. As of what date is the property tax receivable recorded? (572)

   c. What do the notes disclose about the property tax calendar, lien dates, levy (assessment) dates, due dates and collection dates? (573)

4. *Inventories.*

   a. If not disclosed on the balance sheet, do the notes include a description of the stated basis for inventories (i.e., are governmental fund inventories, not held for resale, reported at cost)? (581)

   b. Do the notes specify methods (e.g. FIFO, LIFO, average cost) for stating any material inventories? (582)

   c. Do the notes indicate the accounting treatment (i.e., consumption/purchase method) applied to governmental fund type inventories. (583)

5. *Fixed Assets.*

a. How does the government account for infrastructure fixed assets? (591a)

b. Are the estimated useful lives for the major classes of depreciable fixed assets specified? Give an example. (591b)

c. What depreciation method is used for the major classes of depreciable fixed assets specified? (591c)

d. How are donated fixed assets are reported? (593a)

e. At what basis are purchased fixed assets stated? (593b)

f. Has the government refrained from using terms like "appraised values" or "estimated values" without indicating whether they involve historical cost, replacement cost or market value appraisals or estimates? (593c)

g. Where are the major classes of fixed assets disclosed? (594)

h. Where are changes in fixed assets reported? (595)

6. *Long-Term Debt.*

a. If a debt service fund is not in use, what do the notes indicate about which individual funds or revenue sources are used to repay which long-term debt amounts? (611)

b. What debt service requirements to maturity for outstanding debt are disclosed? (612)

c. Are changes in all general long-term liabilities disclosed in the general long-term debt account group included? (613)

d. What commitments under capital leases are included? (614)

e. What minimum future lease payments including a deduction for imputed interest to arrive at net present value have been included? (614)

f. If the government is obligated in some manner for outstanding special assessment debt, do the notes disclose the nature of the government's obligation? (618)

g. If the government is not obligated in any manner for outstanding special assessment debt, do the notes disclose the amount of debt outstanding and the fact that the government is acting in an agent capacity for the property owners? (619)

7. Compliance.

a. Are amounts of any excesses of expenditures over appropriations at the legal level of budgetary control in individual funds disclosed and explained? If not, should they have been? Explain. (681)

b. What amounts are disclosed and rationale is provided if any deficit fund balances/retained earnings of individual funds exist? Describe. (682)

c. Have any material violations of finance-related legal and contractual provisions been identified? If so, describe. (683)

8. Landfills.

a. Is the government involved with landfill operations?

b. If so, what is the liability the government has accrued for a portion of the total current cost of closure and post closure care of the solid waste landfill? (701*)

c. What is the liability for closure and post-closure care at the balance sheet date? (704)

d. What is the percentage of landfill capacity used to date and estimated remaining landfill life in years? (705)

e. Briefly summarize the note disclosure regarding the nature and source of post-closure care requirements. (702)

H. Combining, Individual Fund and Account Group Statements/Schedules.

1. Are columns sequenced in the same order from left to right on the combining statements as any physically separate individual fund statements are sequenced from front to back behind them? (814)

2. Are budgetary comparisons presented for individual funds for which annual budgets are legally adopted? (815*)

3. Are both budget and actual data on budgetary comparison statements/schedules, presented on the budgetary basis? (817*)

4. If agency funds are presented, is a Combining Statement of Changes in Assets and Liabilities included? (819)

5. Does the report presentation facilitate the tracing of amounts from Combining Statements - By Fund type to the General Purpose Financial Statements for the following items:

   a. Are account titles consistent? (823a)

   b. Are account titles sequenced consistently? (823b)

   c. Are totals and subtotals grouped consistently? (823c)

6. Does the report presentation facilitate the tracing of amounts from physically separate individual fund statements to Combining Statements - By Fund Type or to the GPFS/CUFS for the following items:

   a. Are account titles consistent? (824a)

   b. Are account titles sequenced consistently? (824b)

   c. Are totals and subtotals grouped consistently? (824c)

7. Are amounts reported on the various levels of the financial reporting pyramid in agreement with the following:

   a. Amounts on the physically separated individual fund statements agree with related amounts on the combining statements by fund type? (825a)

   b. Amounts on the combining statements - by fund type agree with related amounts on the general purpose financial statements? (825b)

c. Amounts on the physically separate individual fund statements agree with related amounts in the general purpose financial statements. (825c)

d. Amounts reported in any supporting schedule agree with related amounts in the basic financial statements. (825d)

VI. STATISTICAL SECTION

1. What statistical tables that have been included in the CAFR? (901-914).

2. Do the amounts reported in the statistical tables agree with related amounts in the financial and introductory sections? (916)

   a. Provide two examples of amounts that agree, included page numbers.

   b. If you discover amounts that do not agree, discuss the nature of the discrepancy.

   Note: Information on certain tables often do not trace to the financial statements and schedules or the letter of transmittal. Amounts should be traced on a test basis. The GFOA uses a cross-referencing table to complete this part of the review.

VII. SUMMARY

Create a conclusion for your report (2 paragraphs minimum.)

CLASS: _____ STUDENT: _____

DATE: _____ SCORE: _____

WRITING SKILLS ASSESSMENT

Concept Development

0-1	2	3	4
Answered some/most questions poorly.	Answered most parts of all questions acceptably.	Answered most parts of all questions well.	Answered all parts of all questions thoroughly.
Central concepts poorly developed.	Central concepts adequately developed.	Central concepts well developed.	Central concepts fully developed.

Thinking and Language

0-1	2	3	4
Uses language and organization of text or other sources.	Paraphrased concepts from text or other sources.	Summarized concepts primarily using own wording.	Accurately summarized concepts using own wording.

Logic and Terminology

0-1	2	3	4
Arguments are poorly supported and are illogical.	Arguments adequately supported and are usually logical.	Arguments are well supported and are logical.	Arguments fully supported and are always logical.
Appropriate terminology is seldom used.	Appropriate terminology is sometimes used.	Appropriate terminology is usually used.	Appropriate terminology is always used.

Organizational Quality, Style, Tone

0-1	2	3	4
Awkward sentence structure and organization.	Occasional awkward sentence structure and organization.	Smooth usually clear sentence structure and organization.	Fluid sentences; good sentence variety; pleasure to read.
Inappropriate audience tone.	Adequate audience tone.	Good audience tone.	Excellent audience tone.
Format and print quality inadequate.	Format and print quality adequate.	Format and print quality is good.	Format and print quality excellent.

Grammar and Language Usage Fundamentals

0-1	2	3	4
Many errors: - Typos - Misspellings - Subject/verb agreement - Noun/pronoun disagreement - Incomplete sentences - Improper use of commas - Run-on sentences	Usually correct with few errors.	Not more than one or two minor errors.	Flawless